

## Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 INT-05 FEAE-00 FPC-01 EA-06 /102 W

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R 201250Z JUN 75

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 2596

INFO USMISSION OECD PARIS

C O N F I D E N T I A L ALGIERS 1412

PASS EXIM

E.O. 11652: GDS

TAGS: EFIN, AG

SUBJECT: ALGERIAN EXTERNAL DEBT

REF: (A) ALGIERS 1405 (B) ALGIERS 0986 (C) ALGIERS 1120

1. FIRST NATIONAL BANK OF CHICAGO (FNBC) INFORMED EMBASSY, PROTECT, THAT ALGERIAN EXTERNAL BANK (BEA) HAD ASKED THEM TO PUT TOGETHER A CRFSORTIUM TO ARRANGE 400 MILLION DOLLAR LOAN ON EURODOLLAR MARKET, REF A PARA 5.

2. FNBC IS TRYING TO PUT SUCH A DEAL TOGETHER AT 1 5/8 OVER LIBEL FOR ONLY 5 OR 6 YEARS. BEA BELIEVES SHORTER TERM WILL CARRY THEM OVER PRESENT BALANCE OF PAYMENTS PROBLEMS AS EARNINGS FROM GAS WILL START IN 5 OOR 6 YEARS.

3. BEA HAS BEEN ASKED BY ALGERIAN MINISTRY OF FINANCE TO ARRANGE LOANS FOR 1 BILLION DOLLARS IN 1975. THIS FIGURE INCLUDES SUPPLIER CREDITS. THUS EURODOLLAR  
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BORROWING IS SAID TO BE ONLY APPROACH TO MARKET BY

BEA THIS YEAR. UNFORTUNATELY BEA BORROWINGS ARE NOT COORDINATED WITH OTHER PRINCIPAL ALGERIAN BANKS, BNA AND CPA, SO BEA PLANS DO NOT GIVE TOTAL PICTURE. BEA IS THE BIGGEST EXTERNAL BORROWER, HOWEVER.

4. AGAIN BEA'S INFORMATION TO FNBC IS FOR 1973 WITH FOREIGN RESERVES DATED AS OF DECEMBER 1974. DEBT/SERVICE RATIO TO FOREIGN EARNINGS IS STATED BY BEA TO BE 8 PERCENT.

5. WITHOUT DETAILS ON ALGERIA'S BORROWINGS, IT IS IMPOSSIBLE TO CALCULATE A FULL DEBT/SERVICE CHART FOR ALGERIA, BUT EMBASSY'S SIMPLISTIC CALCULATION WOULD INDICATE THE DEBT/SERVICE RATIO AT 28 PERCENT. ALGERIAN EXPORTS IN 1975 ARE ESTIMATED AT ABOUT 4.3 BILLION DOLLARS (REF B). ALGERIAN DEBT IS ESTIMATED AT ABOUT 6.5 BILLION DOLLARS MADE UP OF 1.8 BILLION EURODOLLAR LOANS AND 4.2 BILLION SUPPLIER CREDITS (REF C PARA 4) AND .5 BILLION PRIVATE BANK CREDITS. IF ONE ASSUMES THESE LOANS ARE AT AN AVERAGE OF 8 PERCENT AND EIGHT YEARS, THEN DEBT SERVICE TOTALS 1.2 BILLION DOLLARS A YEAR. SINCE REPAYMENT IS LOADED ON BACK END OF LOANS, AND THERE ARE VARIOUS GRACE PERIODS, THIS AVERAGE IS NOT MEANT TO EQUATE ACTUAL DEBT REPAYMENTS IN 1975 BUT ONLY AS INDICATION OF MAGNITUDE.

6. EMBASSY WOULD APPRECIATE ANY COMMENTS OR RECTIFICATIONS ON THE ABOVE CALCULATION. SINCE ALGERIA'S FOOD IMPORT BILL WAS ABOUT 1.5 BILLION DOLLARS LAST YEAR AND EXPECTED TO REMAIN VERY HIGH FOR NEXT 5 YEARS AND RULE OF THUMB MAKES ANY DEBT/SERVICE RATION OVER 20 PERCENT DANGEROUS, THE FINANCIAL PICTURE LOOKS VERY BLEAK. IN FACT, EMBASSY SUGGESTS FURTHER MEETINGS WITH IMF ON ALGERIAN FINANCIAL PICTURE AND POSSIBLY DISCUSSION AMONG SOME OF PRINCIPAL SUPPLIER CREDIT COUNTRIES; FRANCE, UK, GERMANY, JAPAN, CANADA, ITALY, SPAIN AND US. LYNE

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